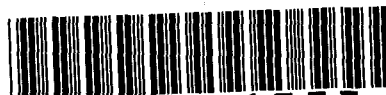


EXCEPTION

BEFORE THE ARIZONA C



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Arizona Corporation Commission

DOCKETED

FEB 17 1999

ORIGINAL

JIM IRVIN
COMMISSIONER-CHAIRMAN
TONY WEST
COMMISSIONER
CARL J. KUNASEK
COMMISSIONER

DOCKETED BY

Cfu

Docket No. RE-00000C-94-0165

IN THE MATTER OF COMPETITION IN
THE PROVISION OF ELECTRIC
SERVICES THROUGHOUT THE STATE
OF ARIZONA.

RUCO's EXCEPTIONS TO PROPOSED RULES

Pursuant to the Arizona Corporation Commission's ("Commission") February 12, 1999 Procedural Order, the Residential Utility Consumer Office ("RUCO") files its exceptions to the Electric Competition Rules and Electric Utility Rules ("Proposed Rules"). The Hearing Division has adopted many of the modifications RUCO proposed in its January 29, 1999 filing. For the reader's convenience, therefore, the following Comments and proposed amendments state all of RUCO's remaining proposed changes to the Proposed Rules. Attached as Exhibit A are the actual textual modifications which RUCO proposes.

Additionally, RUCO refers to the Proposed Rules as numbered in Exhibit A issued by the Hearing Division on February 5, 1999 (the non-strikeout version).

R14-2-210 Billing and Collection

Paragraph C.1 requires that all bills be due no later than 15 days after they are rendered. RUCO proposes that the Rule provide that bills be due no sooner than 15 days after they are rendered.

1 **R14-21601 Definitions**

2 RUCO proposes modifying the definition of "System Benefits" in R14-2-1601.40, to
3 conform to its proposed modifications to Section R14-2-1608. See discussion in Section
4 R14-2-1608 below.

5 **R14-2-1602 Commencement of Competition**

6 RUCO opposes linking the start of competition with the resolution of each Affected
7 Utility's Stranded Cost and Unbundled Tariff proceedings in paragraph A.

8 **R14-2-1604 Competitive Phases**

9 Currently, the Rules provide that only 1¼ percent of residential customers will be
10 allowed access to competitive electric services each quarter during the two year phase-in
11 period. The Rules do not provide any definite benefits for those residential customers who are
12 denied access to competitive services during the phase-in period. Therefore, RUCO proposes
13 that the currently provided for residential phase-in program be significantly expanded in size.

14 In paragraph C, RUCO proposes that the language require Affected Utilities to request a
15 rate decrease for standard offer customers, rather than merely allow Affected Utilities to
16 suggest mechanisms providing benefits to standard offer customers.

17 **R14-2-1606 Services Required to be Made Available**

18 RUCO proposes a modification to paragraph C.1 to require that the same service be
19 priced the same whether offered as part of a bundled service, or as an unbundled service.
20 Changes in R14-2-1613.O and P are also necessary.

1 **R14-2-1607 Recovery of Stranded Cost of Affected Utilities**

2 The Recommended Order adopts language in Section F, proposed by RUCO, to clarify
3 that any Competitive Transition Charge ("CTC") would be charged to both competitive and
4 Standard Offer customers. Since proposing the language, RUCO has discovered that it
5 creates a loophole for some industrial customers that take power at transmission-level
6 voltages and do not use the distribution system. Without further amendment, this Rule would
7 allow those customers to escape from payment of the CTC. RUCO proposes a further
8 amendment to close this loophole.

9 **R14-2-1608 System Benefits Charges**

10 System Benefits Charges should not include nuclear fuel disposal and nuclear plant
11 decommissioning programs. Those programs relate to generation, and therefore should be
12 included in generation costs, and, if necessary, stranded costs. In addition, the terms "market
13 transformation" and "long-term public benefit research and development" programs are vague.
14 Neither term is defined in the Proposed Rules. RUCO objects to the inclusion of programs in
15 the Stranded Benefits Charge that are not identifiable.

16 **R14-2-1613 Service Quality, Consumer Protections, Safety and Billing Requirements**

17 RUCO opposes the separation of must-run generation units charges from the
18 generation part of electricity costs in paragraph (O)(1)(d). Separating must-run generation
19 from generation itself will make it more difficult for consumers to compare prices between
20 providers. Paragraph (O)(1)(d) should be deleted.

21 RUCO also proposes that ancillary services not required by FERC be included in
22 distribution service. Ancillary services included in the distribution utilities' FERC transmission
23 tariffs should be included in transmission rates. This would simplify customer bills by making
24

1 "Ancillary Services" unnecessary as a separate billing element. The deletion of "Ancillary
2 Services" is reflected in Section O(2).

3 **R14-2-1615 Administrative Requirements**

4 RUCO opposes striking the language that requires new tariffs to be affirmatively
5 approved by the Commission. Because such offerings are new, consumers should have the
6 benefit of Commission approval prior to a new service being available to the public.

7 **R14-2-1616 Separation of Monopoly and Competitive Services**

8 RUCO opposes striking the language in paragraph (A) that requires the Commission to
9 approve a fair and reasonable value at which generation assets or competitive services are
10 transferred to an affiliate. This rule is necessary in order to prevent Standard Offer customers
11 from subsidizing an affiliate.

12 **R14-2-1617 Electric Affiliate Transaction Rules**

13 RUCO proposes additional language in Section A.2 to prohibit a person with access to
14 non-public utility information from providing guidance to or working for an affiliate. A person
15 with such access could provide guidance to an affiliate that could give the affiliate an unfair
16 advantage. For example, a utility employee privy to bids could provide useful advice to an
17 affiliate about how to bid, without actually revealing the amounts of the competing bids.

18 RUCO proposes modifications to Section A.7.a. When an item sold to an affiliate is
19 used in the provision of a competitive service, the rule as currently written could result in
20 increased stranded costs. For example, if an Affected Utility auctions its generation assets or
21 purchased power contracts for Standard Offer customers, the Rules could prevent affiliates
22 from bidding if the market value of the assets is less than their fully-allocated cost. The
23 exclusion of affiliates from the bidding could result in a lower sales price, resulting in increased
24

1 stranded costs. RUCO proposes language that would allow transactions for competitive
2 services between affiliates at market prices approved by the Commission.

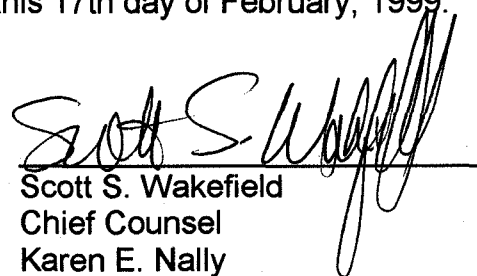
3 RUCO suggests conforming paragraph (F)(2) to match the wording in paragraph (A)
4 which specifically references residential customers.

5 **R14-2-1618 Disclosure of Information**

6 RUCO urges caution in establishing mandatory disclosure requirements. If consumers
7 are overwhelmed with information about their generation choices, they may be deterred from
8 entering the competitive market. Of course, essential pricing data should be provided to
9 customers. However, data such as fuel mix and emission characteristics, which may be
10 important to pockets of consumers, should not be required disclosures to all consumers.

11 RUCO therefore proposes striking sections B.5 through B.7.

12 RESPECTFULLY SUBMITTED this 17th day of February, 1999.

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RUCO's Proposed Modifications to Retail Electric Competition Rules and Electric Utilities Rules

R-14-2-210 Billing and Collection

- C.1. All bills for utility services are shall be due and payable no later less than 15 days from the date of the bill. Any payment not received ~~within this time frame~~ by the due date shall be considered delinquent and could incur a late payment charge.

R14-2-1601 Definitions

40. "System Benefits" means Commission-approved utility low-income, demand side management, consumer education, ~~market transformation,~~ environmental, and renewables, ~~long term public benefit research and development, and nuclear power plant decommissioning programs.~~

R14-2-1602 Commencement of Competition

- A. An Affected Utility's customers will be eligible for competitive electric services, subject to the phase-in schedule in R14-2-1604, ~~on the date set by Commission Order in each Affected Utility's Stranded Cost and Unbundled Tariff proceeding.~~

R14-2-1604 Competitive Phases

- B. ~~As part of the minimum 20% of 1995 system peak demand set forth in R14-2-1604(A),~~ each Each Affected Utility shall reserve a residential phase-in program that provides an increasing minimum percentage of residential customers with access to competitive electric services according to the following schedule:

- | | |
|-------------------------------|-----------------|
| 1. January 1, 1999 | 1 ¼% |
| April 1, 1999 | 2 ½ % |
| July 1, 1999 | 3 ¾% |
| October 1, 1999 | 5 % |
| January 1, 2000 | 6 ¼% |
| April 1, 2000 | 7 ½% |

~~July 1, 2000~~ ~~8 3/4%~~

~~October 1, 2000~~ ~~10%~~

1. January 1, 1999 10%

July 1, 1999 15%

January 1, 2000 20%

July 1, 2000 25%

- C. Each Affected Utility shall file ~~a report~~ an application by November 1, 1999, ~~detailing possible mechanisms to provide benefits, including rate reductions of 3% - 5%, to all Standard Offer customers.~~ to decrease standard offer rates by at least three to five percent.

R14-2-1606 Services to be Made Available

- C.1. ~~By the date indicated in R14-2-1602~~ October 1, 1999, each Affected Utility shall file proposed tariffs to provide Standard Offer Service. Such rates shall not become effective until approved by the Commission. Standard Offer tariffs shall include the billing cost elements required by R14-2-1613(O). When the same service is provided under an Affected Utility's Standard Offer tariffs and Unbundled Service tariffs to the same class of customers, the service shall be priced the same under both tariffs.

R14-2-1607 Recovery of Stranded Cost of Affected Utilities

- F. A Competitive Transition Charge (CTC) may be assessed on all retail customers ~~continuing to use the distribution system~~ based on the amount of generation purchased from any supplier. Any reduction in electricity purchases from an Affected Utility resulting from self-generation, demand side management, or other demand reduction attributable to any cause other than the retail access provisions of this Article shall not be used to calculate or recover any Stranded Cost from a consumer.

R14-2-1608 System Benefits Charges

- A. Each Affected Utility or Utility Distribution Company shall file for Commission review non-bypassable rates or related mechanisms to recover the applicable pro-rata costs of System Benefits from all

consumers located in the Affected Utility's or Utility Distribution Company's service area. Affected Utilities or Utility Distribution Companies shall file for review of the Systems Benefits Charge at least every 3 years. The amount collected annually through the System Benefits charge shall be sufficient to fund the Affected Utilities' or Utility Distribution Companies' Commission-approved low income, consumer education, demand side management, environmental, and renewables long-term public benefit ~~research and development and nuclear fuel disposal and nuclear power plant decommissioning~~ programs and other programs that may be approved by the Commission from time to time.

R14-2-1613 Service Quality, Consumer Protection, Safety, and Billing Requirements

- O. Billing Elements. After the commencement of competition within a service territory pursuant to R14-2-1602, all customer bills, including bills for Standard Offer, for customers within that service territory, will list, at a minimum, the following billing cost elements:
1. Electricity Costs:
 - a. Generation,
 - b. Competition Transition Charge, and
 - c. Fuel or purchased power adjustor, if applicable, and
 - d. ~~Must-Run Generation Units charge~~
 2. Delivery costs:
 - a. Distribution services, and
 - b. Transmission services, and
 - c. ~~Ancillary services~~
 3. Other Costs:
 - a. Metering Service,
 - b. Meter Reading Service,
 - c. Billing and collection, and
 - d. System Benefits charge

Insert new paragraph P

- P. Within a given customer class, the bundled and unbundled bills shall include the same billing cost elements.

Renumber to conform

R14-2-1615 Administrative Requirements

- A. Any Electric Service Provider certificated under this Article may file proposed additional tariffs for Competitive Services at any time which include a description of the service, maximum rates, terms and conditions. The proposed new service may not be provided until the Commission has approved the tariff.

R14-2-1616 Separation of Monopoly and Competitive Services

- A. All competitive generation assets and competitive services shall be separated from an Affected Utility prior to January 1, 2001. Such separation shall either be to an unaffiliated party or to a separate corporate affiliate or affiliates. If an Affected Utility chooses to transfer its competitive generation assets or competitive services to a competitive electric affiliate, such transfer shall be at a value determined by the Commission to be fair and reasonable.

R14-2-1617 Electric Affiliate Transaction Rules

- A.2. An Utility Distribution Company, its parent holding company, or a separate affiliate created solely for the purpose of corporate support functions, may share with its affiliates joint corporate oversight, governance, support systems and personnel. However, no person privy to a utility's non-public information shall serve an affiliate in any capacity or provide any guidance based on non-public information. Any shared support shall be priced, reported and conducted in accordance with all applicable Commission pricing and reporting requirements. An Utility Distribution Company shall not use shared corporate support functions as a means to transfer confidential information, allow preferential treatment, or create significant opportunities for cross-subsidization of its competitive electric affiliates, and shall provide mechanisms and safeguards against such activity in its compliance plan.
- A.7.a Goods and services provided by an Utility Distribution Company to a competitive electric affiliate shall be transferred at the price and under the terms and conditions specified in its tariff. If the goods or service to be transferred is a non-tariffed item, the transfer price shall be the higher of fully allocated cost or the fair market price, except that if a good or service transferred is being divested because it is used to provide a competitive service under this Article, it may be transferred at a Commission-approved market value even if its fully-allocated cost is higher. Transfers from an affiliate to its affiliated Utility Distribution Company shall be priced at the lower of fully allocated cost or fair market value, except that if the item

transferred is to be used in providing a competitively-traded service to Standard Offer customers, it may be transferred at a Commission-approved market price even if its fully-allocated cost is lower. If market price cannot be easily determined by the Utility Distribution Company or if a good or service is not regularly offered to third parties (e.g., shared service), the transfer price should not be less than the fully allocated cost of the good or service.

R14-2-1618 Disclosure of Information

A. Each Electric Service Provider providing generation services shall prepare a consumer information label that sets forth the following information (to the extent reasonably known) for residential customers:

1. Price to be charged for generation services,
2. Price variability information,
3. Customer service information,
4. ~~Composition of resource portfolio,~~
5. ~~Fuel mix characteristics of the resource portfolio,~~
6. ~~Emissions characteristics of the resource portfolio, and~~
7. Time period to which the reported information applies.